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PACIFIC ECONOMIC COOPERATION: WASHINGTON'S NEW ASIAN STRATEGY?

Summary

Over the last year or so the United States has championed the idea of an Asia Pacific economic entity. Political analysts have suggested that Washington's initiative is motivated by U.S. concerns about containing Japan's economic presence in this region as well as its desire to create an economic counterweight to the soon-to-be-integrated European Community. While these developments no doubt form an important backdrop, it appears that Washington's interest in an Asia Pacific economic organization stems primarily from a recognition that U.S. foreign policy must be adapted to reflect changed political and economic conditions in this part of the world.

Whether the concept of Asia Pacific economic cooperation actually can be implemented remains to be seen. Certain political and organizational issues, such as structure, membership and scope, wait to be addressed. A November 6-7 meeting in Canberra, Australia only introduced participating Pacific Rim nations to the complexities of establishing formal economic links.

Asia Pacific: A Region in Transition

The concept of enhancing economic cooperation in the Pacific region is an idea "whose time seems to have come," a phrase repeated by many of those involved in such discussions. After at least 10 years of consideration in a variety of government and private-sector forums, representatives of 12 governments of the Asia Pacific region met in Canberra, Australia November 6-7 in an effort to implement this vision. Participating were: the United States, Canada,

Japan, Australia, New Zealand, South Korea and the countries of the Association of Southeast Asian nations (Singapore, Thailand, Indonesia, Malaysia, the Philippines and Brunei). Although the Asia Pacific Economic Cooperation Conference did not produce a formal structure for regional economic cooperation, the meeting nevertheless was a "clear and substantial step forward for international relations" and will pave the way for further discussions, according to Secretary of State James Baker.

What has increased the attractiveness of a regional economic grouping in this part of the world? Government and private-sector officials who actively have sought to foster this entity maintain that changes in the Asia Pacific political and economic environment have created an atmosphere more amenable to multilateral cooperation. Richard Fairbanks, president of the U.S. National Committee for Pacific Economic Cooperation, a private organization comprised of regional business, government and academic leaders, points out that the reduction of political tensions in the Asia Pacific over the past 15 years has allowed interest in regional economic cooperation to blossom. In addition to the protection provided by the U.S. security umbrella, "the relaxation of tensions following normalization of U.S. relations with China, the end of the Vietnam War, and the rapprochement between the Soviet Union and China all are factors that have made it easier for policymakers in the region to focus more of their attention on economic relationships," Mr. Fairbanks told the Senate Foreign Relations subcommittee on East Asia and Pacific Affairs at its September 21 hearing on this subject.[1]

Economic growth in Asia has soared over the past decade; the largest economies of the Asia Pacific region together now account for an estimated 24 percent of the world's gross national product, which is roughly equal to the U.S. share. Regional economic interdependence also has expanded; the share of intraregional trade among the economies of Asia Pacific countries grew from about 50 percent in 1970 to more than 65 percent in 1987. In particular, trade with this part of the world now accounts for more than one-third of America's total foreign commerce. In fact, at $280 billion in 1988, U.S. transpacific trade overshadowed by nearly 50 percent the $190 billion in transatlantic trade.

Investment flows also have helped to integrate regional economies. The net book value of U.S. direct investment in East Asia alone now exceeds $33 billion. Although accounting differences make a precise comparison difficult, Japanese direct investment in the region at least approximates and now may even exceed the U.S. level (see JEI Report No. 31A, August 11, 1989). Taiwan and South Korea, rapidly maturing beyond the newly industrialized economy category, also are expanding investment in the region as rising labor costs have forced them to seek overseas manufacturing sites.

[1]Testimony by Richard Fairbanks, president, U.S. National Committee for Pacific Economic Cooperation, before the Senate Foreign Relations Subcommittee on East Asia and Pacific Affairs, September 21, 1989, p. 3.

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The largely export-driven economies of Asia have flourished due partly to the relatively unimpeded access to the U.S. and other global markets. However, the dynamic economic growth and interdependence that this part of the world has realized during the past decade has, in turn, generated adjustment problems as the global trading system has been forced to accommodate sharply expanded Asian exports. The large and persistent U.S. trade deficit, at least with the 11 other countries of the Asia Pacific that met in Canberra ($83.8 billion in 1988), has created a growing domestic constituency that advocates protectionist barriers as a way of rectifying the trade imbalance. Specifically, Washington's call for negotiations on unfair trade practices under the Super 301 provision of the 1988 trade act has heightened concerns in Asian countries that they progressively may be shut out of this critical market.

Other developments that Asian countries appear to view as potential harbingers of a less open trading system include the U.S.-Canada Free Trade Agreement, which went into effect in January 1989. Nations in Asia fear this accord could usher in an era of other restrictive bilateral arrangements. Another threat is seen in the European Community's plan to fully integrate its members' economies by 1992. In addition, given the snail's pace of the Uruguay Round of multilateral trade negotiations, some regional officials are not completely confident that the trade system based on the General Agreement on Tariffs and Trade can address the variety of new economic pressures.

The United States and its Asia trading partners therefore have found themselves confronted with the need to find new ways of tackling commercial frictions so that the free trading system that gave rise to their prosperity is not destroyed. According to Mr. Fairbanks, rather than undermining the prospects for regional economic cooperation, the strains of economic adjustment have "added a shared sense of urgency that [the United States and Japan as well as the other nations in the region] must find a better means for addressing trade frictions."[2]

Pacific Economic Cooperation Gains Momentum

The concept of a mechanism for Pacific economic cooperation for many years had been advanced by academics and businessmen who viewed it as a means to further propel the region's economic development. Unlike the European continent, however, the vast geographic, social and cultural diversity of this part of the world presents formidable obstacles to formal integration. In addition, unlike in Europe, the levels of economic development in the Asia Pacific vary tremendously, ranging from the highly developed U.S. and Japanese economies to developing nations, such as Indonesia and Malaysia, with NIEs like South Korea in the middle. This broad spectrum has inhibited development of a regional economic structure.

Nevertheless, several semiofficial or private-sector economic organizations have evoived during the past decade in an effort to fill a perceived need for forums in which to address the region's expanding economic imperatives. The Pacific Economic Cooperation Council was launched in 1980 at the suggestion of then Australian Prime Minister Malcolm Fraser and then Prime Minister Masayoshi

[2]Ibid., p. 4.

Ohira. Comprised of 15 Asia Pacific country members[3], PECC allows business-leaders, academics and government officials (participating in a private capacity) to come together to discuss a broad range of trade, economic and financial issues confronting the region. Since it is not an "official" entity, the organization has enabled countries that do not have diplomatic relations, such as China and Taiwan, to come together to discuss economic issues. According to Mark Borthwick, executive director of the U.S. National Committee for Pacific Economic Cooperation, the U.S. representative body at PECC, up until this point the existence of the organization has allowed governments in the region to maintain a dialogue without having to commit to something larger or more formal.

Another private-sector organization that has strived to facilitate intraregional communication is the Pacific Basin Economic Council, a San Francisco-based organization of business executives from Asia Pacific countries formed in 1968. During that same year the Pacific Trade and Development Conference also was established as a vehicle to bring together leading economists from the region on an annual basis to deliberate a single issue of importance to the Asia Pacific.

The Asian Development Bank and the United Nations Economic and Social Commission for Asia and the Pacific are the primary governmental bodies in the region. However, these organizations do not really serve as forums where nations in the region can discuss specific economic issues or problems. Their membership also extends to countries that are not directly involved in the region.

Both PECC's Mr. Borthwick and R. Sean Randolph of PBEC concur that global and regional economic developments during the past two years have created an environment more conducive to establishing a formal mechanism that would implement the regional economic cooperation concept. "For the first time there is real momentum and support in the governments for [a formal entity]," Mr. Randolph recently was quoted as saying.[4] Mr. Fairbanks maintains that the region is entering an important pivotal period. "In 1989 we have reached an important juncture in the development of a new framework for regional cooperation. Although some governments disagree on the specific blueprint a forum should take, there is a consensus that some expansion and elevation of the dialogue on economic and trade issues should be undertaken," he told the Senate Foreign Relations panel.[5]

While the debate has accelerated since the first of the year, former Secretary of State George Shultz may well have set the ball in motion. In a July 1988 proposal Mr. Shultz reportedly suggested the creation of a "Pacific

[3]The 15 members of PECC are: Australia, the six Asean nations (Singapore, Indonesia, Malaysia, Thailand, the Philippines and Brunei), Canada, China, Japan, South Korea, New Zealand, the Pacific Islands, Taiwan and the United States.

[4]Stuart Auerbach, "The Pacific Economic Compact: Bob Hawke's Plan Moves It Closer To Reality," The Washington Post, August 16, 1989.

[5]Fairbanks, op. cit., p. 12

Basin forum where like-minded countries could compare experiences, discuss ideas and prepare analyses of subjects that are of interest to most countries in the region."[6] Sen. Bill Bradley (D, N.J.) followed this lead with his December 1988 proposal calling for a coalition of eight Pacific Rim economies to "reinforce the Uruguay Round of GATT, enhance policy coordination and remove obstacles to less-developed country growth." Sen. Alan Cranston (D, Calif.), in turn, sponsored a resolution calling on President Bush to initiate a Pacific Basin forum that would hold annual summit meetings to discuss economic, security and political issues unique to the region. This recommendation subsequently was included as an amendment to the fiscal 1990 State Department authorization bill.

It was Australian Prime Minister Bob Hawke, however, who, in a speech in Seoul, South Korea this past January, effectively set the stage for concerted action. The Australian leader proposed establishment of a Pacific version of the Europe-based Organization for Economic Cooperation and Development to support GATT-led trade liberalization and encourage policy coordination. Joining the rising chorus on both sides of the Pacific calling for establishment of a formal regional mechanism, Mr. Hawke maintained that a secretariat, among other administrative organs, was needed to provide support for ongoing high-level meetings. While lauding the important role PECC has played in facilitating regional discussions, Mr. Hawke maintained that "its informality, which has helped to broaden its membership, also has made it difficult for it to address policy issues that are properly the responsibilities of governments."

Political analysts maintain that the Hawke initiative stood apart from the others in part because the prime minister pursued it aggressively as a key component of Australia's foreign policy.[7] Recognizing the broad-based support for an Asia Pacific economic grouping, Mr. Hawke seized the issue at a timely moment. There is a view that the prime minister's initiative reflected Australia's recognition that while most of its population derives from Western Europe, the country's economic interests are better served by integrating itself into the dynamic Asia Pacific economic framework. There is also speculation that Mr. Hawke feared that the European Community's 1992 integration and the recently implemented U.S.-Canada Free Trade Agreement were opening the door to a proliferation of regional trading blocs from which his country would be shut out.[8]

The Australian leader's initial membership list appeared to reflect his concern. Mr. Hawke originally proposed a core group, consisting of Asean members as well as Japan, South Korea, Australia and New Zealand but excluding the United States, Canada and China. After canvassing several East Asian nations as well as visiting Washington in early spring, the prime minister revised the plan to include the United States and Canada. Sydney's official line is that these two countries should be included since they are major forces in the Asia

[6]Testimony by Richard H. Solomon, assistant secretary of state for East Asia and Pacific affairs, before the Senate Foreign Relations Subcommittee on East Asia and Pacific Affairs, September 21, 1989, p. 9.

[7]Fairbanks, op. cit., p. 13.

[8]Auerbach, op. cit.

Pacific economy. The United States, in particular, as the main guarantor of regional security, is a natural partner for regional leadership, Australian officials point out. Other reports suggest that East Asian nations were keen on U.S. involvement as a means of curbing Japan's economic domination of the region. Memories of Tokyo's World War II occupation of the region are still quite vivid throughout Southeast Asia, and these countries tend to bridle whenever proposals are aired that urge an expanded Japanese presence in the region.

Nearly on the heels of the Hawke initiative, Tokyo also came forward with several ideas for regional economic cooperation. The Ministry of International Trade and Industry's 1988 trade white paper, for one, commits the Japanese government to fostering economic integration in East and Southeast Asia (see JEI Report No. 24B, June 23, 1989). One suggested means to this end was a network of free-trade pacts involving Japan, Asian NIEs and other developed and less developed nations. Specifically, some Japanese policymakers envisage the establishment of free-trade zones involving Japan, its Asian partners and the United States. Under this plan Japan would absorb U.S.-bound Asian exports in return for continuing free access to the American market.[9]

Following up on Prime Minister Hawke's call for a regional economic entity was Secretary of State Baker, who gave a big boost for U.S. pursuit of a "new Pacific partnership" at a June 26 Asia Society program in New York. Mr. Baker declared: "In Asia, as in Europe, a new order is taking shape. While the rites of passage will be painful . . . it is an order full of promise and hope. I believe strongly that the United States, with its regional friends, must play a crucial role in designing the architecture." According to the secretary of state, this new "architecture" will require three important components: continued American engagement in the region's politics, commerce and security; "more creative sharing" of global responsibilities with Japan; and a new mechanism for increased economic cooperation throughout the Pacific Rim.

As will be discussed below, the comprehensive nature of Mr. Baker's "new Pacific partnership" suggests that Washington may be rethinking its entire approach to U.S. regional relations. This is particularly apparent in Mr. Baker's strategy toward an Asia Pacific economic organization. Rather than offering a definitive plan, the United States has opted for an evolutionary, consensus-oriented approach that will draw on the best elements of the Australian, Japanese and other proposals.

Washington deliberately has sought to avoid imposing a "Made in America" blueprint for a regional economic grouping, according to Richard Solomon, assistant secretary of state for East Asia and Pacific affairs. "Given the history of unsuccessful efforts in this direction and the sensitivities involved, progress requires careful, incremental consensus-building if an economic cooperation mechanism is to be created," he told the Senate Foreign Relations panel.[10]

Secretary Baker was quite clear, however, that the United States believes that development of any new economic mechanism should be guided by the

[9]"On the Wing," The Economist, July 15, 1989, p. 11.

[10]Solomon, op. cit., p. 11.

following principles:[11]

- The organization should allow consideration of a wide array of issues -- not just trade and investment matters -- but those related to transportation and communications, resource management and the environment.

- Any Pacific-wide institution must further existing efforts to liberalize trade and investment, such as the Uruguay Round, OECD, or Asean.

- The structure and agenda of a Pacific cooperation entity should take into account the diversity of the region's social and economic systems and different levels of development.

- Membership in such an organization must begin with those economies committed to free-market policies but should remain open to eventual participation by those countries still in the early process of economic reform.

- The organization should be able to adapt to the changing needs of regional economic activity.

Despite the major powers' efforts not to impose their ideas on the rest of the region, Asean countries have not shared the same level of enthusiasm for the Baker or the Hawke visions of regional economic cooperation. Their resistance has been somewhat curious in view of the fact that several of them stand poised to "graduate" into the NIE category. Asean's real economic growth in 1988 averaged 7.3 percent, up from 5.5 percent in 1987, according to International Monetary Fund statistics. Among Asean members, Thailand and Malaysia led the group last year with inflation-adjusted growth rates of an impressive 11 percent. (Real American and Japanese growth rates, in comparison, were only 3.9 percent and 5.7 percent, respectively). Thus, this group of countries would appear to have the most to gain from closer cooperation with more advanced economies.

Asean countries are worried that an Asia Pacific economic entity, particularly one with American and Japanese membership, would undermine the organization's regional influence, which has grown considerably following the U.S. withdrawal from Vietnam. "In principle, we don't want to lose our identity. Asean will be the basis of unity for us," an Asean official has been quoted as saying.

Although originally conceived as an economic association, Asean in recent years has gained a political dimension, as reflected in its efforts to resolve the Cambodian situation. In particular, its annual ministerial meeting and postministerial meeting, to which the United States, Japan, Canada, Australia and New Zealand are invited, have become important forums for discussing regional political and economic issues. For this reason, Asean members are opposed to the establishment of a secretariat or other administrative groups for a new regional organization. Instead, they believe that their existing organizational structure should be used as the basis for an expanded regional economic entity.

[11]Speech by James Baker, secretary of state, "A New Pacific Partnership: Framework for the Future," before the Asia Society, New York, June 26, 1989.

In an attempt to reassure its Southeast Asian allies, Washington continues to emphasize that Asean is a "pillar of U.S. relations with the Pacific" and is essential to any regional economic grouping. However, one Australian trade official has been quoted as saying that using Asean as a basis for a new regional economic entity would "require significant adaptation to get it up to speed . . . it would take several years to achieve." Coming on the eve of the Canberra meeting, this statement probably heightened Southeast Asian nations' concerns. Surprisingly, when the 12 nations convened November 6 to discuss the prospects for an economic grouping, Asean formally endorsed the concept of a new regional forum. However, by the end of the meetings, Indonesian Foreign Minister Ali Alatas, chairman of the Asean committee on a new regional forum, remained firm that this goal could best be achieved by using the existing Asean structure.

The Canberra Meeting

The economic and foreign ministers who convened in Canberra knew they faced an ambitious agenda if they were to make meaningful headway in charting a course for regional economic cooperation. Key issues facing them included the structure of the organization, its membership and its mission. While it appeared that participants wanted more from this session than empty rhetoric, they also recognized the complexity of bridging some of the political, economic and sociocultural differences that heretofore have impeded cooperation. As one U.S. official remarked, "We are at the beginning of a process that will evolve over five to 10 years."[12]

Structure - There appears to be fairly widespread agreement that private-sponsored or quasigovernmental organizations no longer serve the region's need for greater multilateral interaction on economic issues. However, Asia Pacific nations cannot agree on how the entity should be organized. As discussed above, Asean members fear that establishment of an OECD-like secretariat will subsume their organization. Smaller nations in the region also are worried that a U.S. and/or a Japanese presence in an administrative organ will lead to major power domination of regional affairs.

Other questions include: where should the organization be headquartered and should it be staffed with its own bureaucracy? Would development of a bureaucratic structure impede the sort of flexibility and adaptability that potential participants believe is necessary given the economic dynamism of the Asia Pacific? How effective would be leadership-by-committee, comparable to the arrangement employed by the Group of Seven major industrial nations under which subcabinet-level staff of the various government ministries share responsibility for coordinating the group's activities?

These difficult organizational questions, which could have paralyzed discussions from day one, were not even broached at the Canberra meeting. Gareth Evans, APEC chairman and Australia's minister for foreign affairs and trade, stated at the close of the first meeting that "it was premature at this stage to decide upon a particular structure, either for a ministerial-level forum or its necessary support mechanism." He added that "ideas were evolving" and would be addressed at a follow-up meeting in Singapore sometime in mid-1990. If all goes well, a third session will be held in South Korea in 1991.

12S. Karene Witcher and Raphael Pura, "Twelve Asian-Pacific Nations Meet In Australia On Regional Trade Issues," The Wall Street Journal, November 3, 1989.

Membership - Who should be invited to join the regional grouping? Washington has indicated that it would prefer that open-market economies comprise the core of the organization. However, inclusion of Taiwan and Hong Kong -- two of the most vibrant capitalist economies in the region -- would antagonize China, which is also interested in membership as a means of furthering its economic development. But since the entity generally is envisaged as official in nature, how does one include a country with which several of the countries in the region do not enjoy diplomatic relations? This issue, also potentially divisive, was not addressed in Canberra but will have to be tackled in subsequent meetings.

Mission - Should this be a forum for consideration of economic issues alone, or should political and sociocultural matters also be raised? Again, given concerns about Asean's institutional integrity, members of that organization have been adamant that such an entity remain strictly economic in nature. In view of the fact that Prime Minister Hawke initially presented his plan as a "Pacific OECD," it would appear that Australia, too, favors that mission. However, Japan and the United States would like to keep the doors open to consideration of political and other issues, such as the environment. APEC conferees also held off deliberating this question.

What then, if anything, was accomplished in Canberra? In an apparent effort to give APEC some cohesion, purpose and forward momentum, conferees agreed on a "work program" of joint projects of substantive interest to Asia Pacific nations. Among them are studies on the outlook for economic growth in the region, the establishment of a human resources program and cooperative approaches to resolving infrastructure problems. APEC chairman Evans indicated that two projects would be undertaken immediately: one to review data on regional trade in goods, services and capital; the other to examine mechanisms for facilitating trade, investment and technology transfer among Asia Pacific countries. Senior government officials who participated in the APEC meeting also will confer with the "three Chinas" concerning their possible participation at the follow-up gathering next year, the Australian official indicated.

Participants do not appear discouraged by the lack of progress on organizational matters, nor do they appear daunted by the tasks ahead. In summing up the meeting Mr. Evans suggested that conferees accomplished exactly what they had hoped. "What we are doing," he said, "is not so much launching a formal institution as initiating a process."[13]

Washington's New Asian Strategy

Mr. Baker's call for a "new Pacific partnership" has spawned rampant speculation about the nature and the direction of U.S. foreign policy in the coming decade. Some foreign officials have suggested that U.S. interest in Asia Pacific economic cooperation is motivated by American anxieties about a "fortress Europe" when the EC becomes fully integrated in another three years. Commenting on the "heavyweight" U.S. presence at the APEC meeting -- that is, Secretary Baker, U.S. Trade Representative Carla Hills and Commerce Secretary Robert Mosbacher -- one Australian official was quoted as saying that Washington appeared to be sending a subtle message to its European allies that if the

[13]Keith B. Richburg, "Pacific Rim Nations Tentative on Talks Over Trade Group," The Wall Street Journal, November 7, 1989.

EC closes its doors to foreign commerce, the United States, as a Pacific power, has alternative markets and trading partners.[14] Also implied is that Washington, by playing a leading role in the debate and creation of a new economic grouping, is trying to develop a potential mechanism to use as leverage in bargaining for trade concessions with its Atlantic allies.

Another interpretation of heightened American interest in this region is that Washington, anticipating the economic dynamism of the much-ballyhooed "new Pacific century," gradually is deemphasizing its relations with Europe. Yet another view is that U.S. policymakers regard an Asia Pacific economic grouping as a means of containing further Japanese trade and investment expansion in the region.

Washington has not flatly denied that it is concerned about the implications of a unified EC. At the close of the APEC meeting, USTR Hills commented that the proposed grouping will provide "greater discipline" in the GATT-based international trading system, perhaps suggesting that the impact of the new regional organization will be felt in the Atlantic as well as the Pacific. Also, one of the principles outlined in the Baker initiative is that such an entity must expand trade and investment in accordance with GATT. Moreover, American officials and private-sector participants in PECC and other forums emphasize that they are not trying to affect development of, nor do they see benefits to be derived from, the creation of a closed trading bloc in the Pacific. Mr. Fairbanks has pointed out that the economic, cultural and political diversity of the region prevents any serious effort to form a trading bloc that would rival the EC. "The Pacific nations have already demonstrated with the PECC that their approach to cooperation will be uniquely adapted to the region's special characteristics," he maintains.[15]

Is U.S. foreign policy undergoing a fundamental shift that will deemphasize European ties and place greater emphasis on building relations with this country's Asia Pacific partners? Five years ago then Under Secretary of State Lawrence Eagleburger touched off considerable concern in European capitals by saying that U.S.-European differences over economic and political/security issues were contributing to a "shift in the center of gravity of our foreign policy intention toward the Pacific" (see JEI Report No. 43A, November 9, 1984). The Baker initiative would appear to substantiate this interpretation.

U.S. policymakers reject this line of reasoning. The Eagleburger statement, for one, has been characterized as an individual reaction to problems in communicating with Europe, sometimes referred to as "negotiating fatigue." America's historic ties, attitudes, cultural affinity and orientation toward Europe are likely to remain quite strong no matter what happens in the Asia Pacific, officials say. And recent developments in Eastern Europe and Soviet party leader Mikhail Gorbachev's glasnost initiatives are likely to keep strong U.S.-European ties as a linchpin to America's global security strategy, they add.

Yet, at least one political analyst has proposed that the emphasis of U.S.-European and U.S.-Asian relations may indeed be changing; that is to say,

[14] Ibid.

[15] Fairbanks, op. cit., p. 18.

political changes in Europe and arms reductions negotiations will dominate American diplomatic activity in this part of the world, while Asia's rapidly growing economies will increase the importance of trade and investment in U.S. relations toward that region. A Senate aide who has played an active behind-the-scenes role in Congress' consideration of a regional economic grouping has suggested that the growing interest in an Asia Pacific economic organization reflects a general elevation of the economic and social aspects of U.S. foreign policy over the political and military components.

However, the comprehensive nature of Mr. Baker's "new Pacific partnership" suggests that Washington may be in the midst of reevaluating its overall policy toward the region. Politically and economically, the Asia Pacific has changed dramatically in recent years. American policymakers recognize that U.S. policy toward the region should be adapted to reflect these changes rather than continue statically along the lines adopted during the early postwar years. In Mr. Fairbank's words, "[the United States has] entered a new era in the Pacific that calls for a more complex and subtle leadership role by the United States if we are to maximize our effectiveness." Mr. Baker's "new Pacific partnership" may be Washington's effort to define a subtler leadership role for itself.

Indeed, the secretary of state has urged continued American engagement in the region -- but one that recognizes roles for its increasingly prosperous and stronger allies. Mr. Baker also has encouraged exploration of "creative, new ways to assure our mutual defense." Citing Japan's emergence as a global economic power, Mr. Baker in his Asia Society address reiterated the administration's refrain that Tokyo should be engaged in "more creative sharing of global responsibilities."[16] However, he urged both the United States and Japan to recognize that their expanding relationship will "require a transformation of outlook and policy in both countries."

In this regard it is unlikely that the United States views a regional organization as a means of checking Japan's economic expansion. If anything, Washington may believe that it will be more successful in pushing trade liberalization initiatives with Tokyo in a multilateral forum than in continually contentious bilateral talks. As one PECC participant observed, by enabling several different countries to share experiences and potential solutions -- on market access questions, for example -- multilateral approaches diffuse inherent tensions more readily; rather than two countries squaring off, several countries can develop a broader agenda permitting a balance of interests and concerns.[17]

Outlook

The fact that Washington has directed the energies of three cabinet members toward development of a Pacific Rim regional economic entity is testament to how seriously the United States views economic development in this part of the world. However, aware of the need to develop a new approach toward the Asia Pacific that takes into account many of these countries' economic and political gains, U.S. policymakers have opted for a comparatively low-key leadership role. The United States certainly has made its views known on how it

[16]Baker, op. cit.

[17]Fairbanks, op. cit., p. 18.

envisages a regional organization, but it is doubtful that this country -- or any other country -- will go out front in advocating a particular plan. A new regional grouping also may proceed slowly in light of destabilizing developments in Eastern Europe that are causing all economic and political entities to undergo self-examination.

Given the region's geographic, political, economic and sociocultural diversity, consensus is the operative word. If the very appealing concept of regional economic cooperation is ever to be implemented, all interested parties must reach an agreement on its structure, membership and mission -- three tough issues that to date have proved to be elusive. The upcoming meetings in Singapore and South Korea will reveal the extent to which regional members are willing to subordinate some of their individual interests to realize even greater gains through multilateral cooperation.

For further information, contact Barbara Wanner.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

JEI Report will not be published November 24, 1989 because of the Thanksgiving holiday. The next report will be dated December 1, 1989.

APPENDIX

U.S. Exports to APEC Countries, 1984-88

(in millions of dollars, f.a.s. value basis)

Country	1984	1985	1986	1987	1988
Australia	$4,793	$5,441	$5,551	$5,495	$6,981
Canada	46,524	47,251	45,333	59,814	69,233
Japan	23,575	22,631	28,882	28,249	37,732
New Zealand	708	727	881	819	942
Brunei	34	51	202	93	78
Indonesia	1,216	795	946	767	1,056
Malaysia	1,856	1,539	1,730	1,897	2,139
Philippines	1,766	1,379	1,363	1,599	1,880
Singapore	3,975	3,476	3,380	4,053	5,770
South Korea	5,983	5,956	6,355	8,099	11,290
Thailand	1,113	849	936	1,544	1,964
Total APEC Countries	91,543	90,095	95,559	112,429	139,065
Total U.S. Exports	217,888	213,146	227,159	254,122	322,225

U.S. Imports from APEC Countries, 1984-88

(in millions of dollars, c.i.f. value basis)

Country	1984	1985	1986	1987	1988
Australia	$2,899	$3,069	$2,873	$3,287	$3,856
Canada	66,911	69,427	68,662	71,510	81,434
Japan	60,371	72,380	85,457	88,074	93,168
New Zealand	880	969	1,097	1,180	1,303
Brunei	11	2	64	16	30
Indonesia	5,868	4,933	3,675	3,719	3,494
Malaysia	2,825	2,399	2,534	3,053	3,853
Philippines	2,622	2,334	2,150	2,481	2,906
Singapore	4,121	4,412	4,884	6,395	8,226
South Korea	10,027	10,713	13,497	17,991	21,209
Thailand	1,426	1,543	1,873	2,387	3,424
Total APEC Countries	157,961	172,181	186,766	200,093	222,903
Total U.S. Imports	341,177	361,626	382,295	424,442	459,565

Source: Department of Commerce

U.S. Foreign Direct Investment in APEC Countries, Yearend 1984-1988

(net book value in millions of dollars)

Country	1984	1985	1986	1987	1988
Australia	$8,918	$8,772	$9,340	$11,143	$13,058
Canada	46,730	46,909	50,629	58,377	61,244
Japan	7,936	9,235	11,472	14,671	16,868
New Zealand	510	576	598	732	826
Brunei	1	(*)	-29	-18	-18
Indonesia	4,093	4,475	3,217	3,050	3,006
Malaysia	1,101	1,140	1,021	1,019	1,363
Philippines	1,263	1,032	1,299	1,220	1,305
Singapore	1,932	1,874	2,256	2,462	3,005
South Korea	716	743	782	1,003	1,302
Thailand	1,081	1,074	1,078	1,274	1,126
Total APEC Countries	74,281	75,830	81,663	94,933	103,085
Overall U.S. Foreign Direct Investment	211,480	230,250	259,800	307,983	326,900

(*) Less than $500,000.

Source: Department of Commerce

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